

FPI BOARD OF DIRECTORS MEETING
April 19, 2012
WASHINGTON, DC

A meeting of the Federal Prison Industries (FPI) Board of Directors was held at FPI Headquarters in Washington, DC on April 19, 2012.

IN ATTENDANCE:

David Spears, Chairman
Don Elliott, Vice Chairman
Lee Lofthus, Member
Audrey Roberts, Member
Frank Gale, Member
Donald Stanton, Deputy Assistant Secretary of Defense,
for DoD nominee

QUORUM:

A quorum was present.

ALSO IN ATTENDANCE:

Paul M. Laird, Chief Operating Officer, FPI
Mary M. Mitchell, Selectee, Chief Operating Officer FPI
Phil Sibal, Senior Deputy Assistant Director
Charles E. Samuels, Jr, Director, Bureau of Prisons
Thomas R. Kane, Asst. Director, IPPA, Bureau of Prisons
Cathy Hawkins, FPI Controller
Marianne Cantwell, General Counsel
Robert Grieser, Chief, Marketing, Research & Corporate Support
Julie Rozier, Executive Assistant

Chairman Spears called the meeting to order at 8:00 a.m. He welcomed the members and Director Samuels as the Chief Executive Officer of FPI, to the meeting. Mr. Spears stated he looked forward to working with Mr. Samuels in his new role and extended his congratulations to Ms. Mitchell who has been appointed as the Assistant Director for IE&VT. He expressed his appreciation to Mr. Laird for his leadership during the last 5 years.

I. Approval of the January 12, 2012 Meeting Minutes

The Board of Directors considered the draft minutes from the January 12, 2012 meeting. The Board voted unanimously to accept the minutes as presented.

The Board discussed the date of its next meeting. It was determined the Board members would be polled for the appropriate date as the annual budget for fiscal year 2013 will be presented to the Board. It was later confirmed the annual budget meeting would be held August 30, 2012, in Washington, DC.

II. Chief Executive Officer's Report

Director Samuels expressed his appreciation for the opportunity to work with the Board in this capacity of Chief Executive Officer. He expressed his appreciation to Mr. Laird for the leadership he had provided to FPI and the Bureau. Director Samuels stated that while external factors such as economy and legislation had been uncontrollable, Mr. Laird had pushed to ensure FPI leadership was strong.

Director Samuels shared with the Board his confidence in Ms. Mitchell as she assumes the role of Assistant Director and Chief Operating Officer of FPI. He stated Ms. Mitchell has high energy and is committed to the Agency bringing with her a wealth of knowledge in financial operations as well as inmate programs.

Director Samuels indicated that in recent weeks he had been involved in the budget presentations with other agencies in order to obtain funds. He expressed his appreciation for the Department and their continued support in providing funding for the more than 217,000 inmates and more than 37,000 staff. Director Samuels indicated he is committed to being a good steward of the taxpayer's money. He emphasized the significant challenges the Bureau faces as the inmate population increases annually at the rate of approximately 6,500 inmates.

Director Samuels shared with the Board his opportunity to visit Mendota, California last month for their new activation and the excitement of the Mayor. He indicated that with unemployment at approximately 40% in that area, the new facility was a welcomed addition to the community. The Director stated that more than 300 citizens came to share in the event. Director Samuels expressed gratitude for the support of the FPI Board and staff as we work together to protect the American public.

Director Samuels stated that the Bureau was established in 1930 as an agency striving to protect society and we are now challenged to prepare inmates for their reintegration and release back to society, and that this process begins immediately upon their entry into our prisons. He expressed his appreciation to FPI as being a critical program in the BOP's reentry efforts.

Director Samuels stated the FPI program is critical in providing soft skills and job training to almost 13,000 inmates without additional appropriations for the Bureau. Director Samuels indicated that at a cost of \$29,000 per inmate per year for housing, the benefits derived from reducing recidivism are significant when approximately 95% of the Bureau inmates will be released back into society. The core programs like FPI that play an important role in protecting society and reducing taxpayer costs are significant for the Department and society as a whole.

Director Samuels indicated again he is honored to serve in this capacity and looks forward to working with the Board in educating the public on the benefits of FPI.

III. Controller's Report

Ms. Hawkins stated she had appreciated the opportunity to have worked with Mr. Laird. She stated that based upon his evaluation of the data she had presented he had made very difficult decisions when needed.

Ms. Hawkins distributed the detailed cost containment report for March. She reviewed the continued savings in General and Administrative (G&A) expenses and explained that FPI's General and Administrative expenses are below plan. She stated that through March there was a \$2.6 million savings in the Central Office and \$4.8 million in factory overhead savings. She indicated she anticipated the savings to continue to be under budget.

Ms. Hawkins reminded the Board of a previous discussion regarding investment in FPI's infrastructure. Ms. Hawkins advised the Board of the need to invest \$2.5 million in roofing and infrastructure repairs. Through March, \$1.2 million has been expended and \$1.8 million was authorized. An additional request of \$2.5 million is needed for roof repairs bringing the total projected to \$5.6 million for the year. The requested for \$2.5 million in roofing repairs was approved by the Board.

Mr. Elliott requested data on the Lean Six Sigma projects completed by FPI and the cost savings verification process. Mr. Sibal reviewed with Mr. Elliott the QCIB website, including data on LSS projects during the break. Mr. Sibal also indicated there had been a \$1.5 million in verified cost savings in FY 2011.

Ms. Hawkins discussed the March financial key indicators, which reflected \$267 million in cash versus a plan of \$231 million. She stated that \$211 million of this amount is FPI cash including \$190 million in the capital expenditures reserve. Ms. Hawkins indicated accounts receivable was at \$49 million, a decrease from February which was at \$65 million. Ms. Hawkins indicated she expects AR to further decrease as communications with the DoD customers improve.

Ms. Hawkins reviewed sales at \$340 million year to date which is lower than plan year to date of \$344 million. She stated some groups continue to be strong and on track but others lag slightly behind. Administrative expenses were less than plan year to date at \$26 million on a plan of \$28 million for that period. Through March, FPI appears to be on track with the earnings planned loss of \$(23) million for the year.

Ms. Hawkins then presented the cash forecast based upon revised information. Ms. Hawkins stated in terms of sales, the General Managers anticipate only slight revisions, with earnings at the factories at \$55 million vs. plan of \$52 million. Based on these revisions, this places net income at \$18 million loss vs. the \$23 million planned loss.

Ms. Hawkins indicated FPI's quick ratio is 2.6, up from the previous meeting, which is indicative of a solid financial position, while the current ratio is 3.5. Through March, the corporation appears to be on target with the projected losses. The corporation continues with its cost savings measures and expenses remain below plan as a result of those measures.

Mr. Spears reflected that we have many challenges ahead. He stated that we may have had a very different outcome without the strong resources provided by Mr. Laird. Mr. Spears expressed appreciation as did the other Board members.

IV. Chief Operating Officer's Report

Mr. Laird expressed his appreciation for the opportunity of providing leadership for FPI and working with the Board. He stated that for each of the 18 board books prepared, he had to pore over the data, in an effort to seek and make the best decisions to bring to the Board when there were difficult situations, such as needed capacity reductions. He reflected that the FPI staff take the need for information very seriously. They understand the front end work needed to make decisions for the right reasons. He expressed his appreciation for all of the support he had received during these years.

Mr. Laird welcomed Ms. Mitchell indicating she was the first female Chief Operating Officer of FPI and that she would be a true asset with her financial management background and broad knowledge of programs. Mr. Laird then presented Government Service Certificates to Chairman Spears, Member Roberts and Member Elliott for their ten years of dedicated service as a FPI Board Member.

Mr. Laird provided the Board with an update on the previously approved pilots for repatriated work. He stated the LED lighting pilot agreement was progressing and plans continue for production at Fairton, NJ.

King Canopy negotiations are continuing. Unfortunately, a prime customer, Walmart has a prohibition in place which prohibits suppliers to Walmart from using inmate labor. King Canopy is seeking other customers. The Board discussed the need for those at the higher levels to become involved in the educating and communicating with top executives of Walmart and others in corporate America on the benefits of FPI.

The pilots with Woolrich for down parkas and fleece sweatshirts continue to move forward. Woolrich is verifying the laws/rules of Italy for potential prohibitions in importing products made with inmate labor.

Mr. Laird reviewed for the Board the solar panel pilots. He stated these negotiations continue to move slowly. With the recent legislation requiring tariffs and the anti-dumping restrictions on imported solar products, there is hope the FPI solar panel business will benefit. At this time there is little solar work in the factories and most of those staff are working other positions.

Action Item: Mr. Laird requested approval by the Board for a pilot to manufacture baseball caps which are currently manufactured outside of the U.S. These items would then be sold in the commercial market under the respective company name/label. If approved, these caps would be produced at the FPI operation at FCI Jesup which already has an embroidery operation for baseball caps to fill government orders. This pilot could potentially accommodate job skills training for up to 50 inmates. However, at this time, specific companies to partner with have not been identified. The Board approved the pilot proposal to manufacture caps which are currently manufactured off shore.

Action Item: Mr. Laird then requested approval by the Board for a pilot to manufacture textile bags and sacks which are currently being made outside of the U.S. These items would be produced for private sector companies and sold in the commercial market under the respective company name/label. These items could potentially employ an estimated 20 inmate jobs per manufacturing site. At this time, specific companies have not been identified but recruitment efforts are being pursued. The Board approved the pilot proposal to manufacture textile bags and sacks.

Action Item: Mr. Laird then advised the Board that FPI's previous request to publish its intent to produce metal targets to the federal government was announced and FPI received no negative responses. FPI seeks approval from the Board to provide Metal Targets as a competitive product, under FSC 6920, Armament Training Devices. The Board approved the request.

Action Item: Mr. Laird presented a resolution for the Board requesting authorization for building and improvement funds for roofing projects. Mr. Laird explained that consultants had provided individual surveys to establish priorities for roof repairs not to exceed \$2.5 million. Five factories were proposed and the solicitation is to include the utilization of inmate workers and consideration for installing solar arrays, when possible. The solicitations will be on separate bids with inmates utilized as possible in an effort to not only save labor costs but also provide job skills training to the inmates working on the cadre. The contracts will be evaluated for each location to determine the feasibility of using the inmate laborers. The locations authorized for roof replacements were: FCI Bastrop, FCI El Reno, FCI Milan, FCI Sandstone and FCI Terre Haute. The Board approved the resolution.

Action Item: Mr. Laird presented to the Board a redefined Inmate Employment Goals target for FPI. With the Bureau's inmate population increasing and FPI's inmate employment decreasing, the goal for FPI to employ 25% of the Bureau's eligible inmate population is unrealistic. In support of the Attorney General's views on reentry programming for those inmates nearer their release dates, job sharing has been instrumental in increasing the numbers of inmates who receive FPI experience. Fourteen percent of FPI inmates are currently job-sharing. However, with 26,000 inmates on the waiting list at locations throughout the nation, additional work is needed. Additionally, in FY 2011 the Bureau released more than 45,000 inmates back to our communities and 13% had the benefit of FPI experience. Ten percent of the inmates currently employed by FPI now have less than two years remaining on their sentence. Thus, for the

greatest amount of impact, FPI is recommending a prioritization list of inmates with needs within 24 months of release and do not have a minimum of 6 months of FPI experience.

The Director questioned the average length of stay of inmates in FPI. He further suggested that with proven statistics as to the impact of FPI on the recidivism rate, that FPI's mission be focused more visibly on reentry. He advised the Board that all employees in the Department have objectives tied to reentry, not just the BOP. Director Samuels also suggested the emphasis may be placed on low and minimum security institutions where inmates with shorter sentences may have more impact. The Director reviewed for the Board the plans of the BOP to conduct a comprehensive review to catalogue all activities/programs of the Bureau and identify their link to evidence based on recidivism reduction. The need is to communicate to educate society on the programmatic benefits of FPI and Education and the financial savings to society. This model should be circulated among FPI constituents as well as legislators. The Director and Board members agreed that it is more difficult for stakeholders to attack FPI's when the mission is clearly to make a social impact and protect society. The perception of idle hands doesn't make the necessary impact on society. The Board members discussed the branding and marketing of FPI's message to ensure the public is properly informed.

Mr. Kane reiterated to the Board the cost savings to the taxpayer which is supported by research in the study by the Washington State Public Policy Institute and the PREP Study. He stated the Washington State study revealed cost benefits studies that for each one dollar spent on Prison Industries a savings of over \$6.00 results for costs of victimization, prevention of rearrests, etc. Mr. Laird discussed with the Board the many variables impacting FPI recently, to include the solar panel sales which did not materialize, and the elections of FPI not to participate in various solicitations for work has negatively impacted inmate employment. Thus the new goal must be such that with the release of 6,000 inmates yearly with FPI experience, that we aim to replace at least half of those jobs with inmates who are within two years of release. We must have an action plan which includes job sharing to achieve the goal sooner.

Director Samuels reiterated to the Board the need to post inmate testimonials as much as possible. Many inmates have expressed their appreciation to FPI and these pieces should be very evident on the corporate web page. We must ensure communication is clear in our goal, our mission, our reentry efforts and our socioeconomic contributions.

The Board approved the concept of the inmate employment target paper but determined the document should be redrafted to reflect the above discussion and be presented at the next meeting.

Mr. Laird reviewed for the Board the most recent factory capacity initiative data which included the 75 staff impacted, 48 have been placed with 37 remaining to be placed. Positions have been identified for the remaining 37.

Mr. Laird indicated there has been no update on the USP Beaumont investigation report. The OIG review of the management of FPI continues. Mr. Laird reported that we continue to provide data to the auditors. There has been no update in that regard but work continues.

Mr. Laird reviewed for the board the statistics regarding the approximate 1,000 inmates who work in FPI who are veterans. The Board requested expanded information on how many FPI inmates served in Iraq and Iran. FPI will provide this information to the Board once available.

Chairman Spears noted no further business, therefore the meeting adjourned at 1:00 p.m.

/s/
Mary M. Mitchell, Chief Operating Officer/Corporate Secretary